FACTORS WHICH MODIFY THE AREA OF SERVICE OF ACCOUNTING-TO-THE-PUBLIC

BY

WILLIAM ADOLPH TERRILL

B.B.A., University of Cincinnati, 1938
B.S. in Com. Ed., University of Cincinnati, 1940
M.S., University of Illinois, 1949

AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ACCOUNTANCY
IN THE GRADUATE COLLEGE OF THE
UNIVERSITY OF ILLINOIS, 1952

URBANA, ILLINOIS

1952

FACTORS WHICH MODIFY THE AREA OF SERVICE OF ACCOUNTING-TO-THE-PUBLIC

BY

WILLIAM ADOLPH TERRILL

B.B.A., University of Cincinnati, 1938
B.S. in Com. Ed., University of Cincinnati, 1940
M.S., University of Illinois, 1949

AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ACCOUNTANCY
IN THE GRADUATE COLLEGE OF THE
UNIVERSITY OF ILLINOIS, 1952

URBANA, ILLINOIS

1952

ACKNOWLEDGEMENT

Grateful acknowledgement is made to Professor A. C. Littleton for his continuous encouragement and helpful guidance at every stage of this work, and to the members of the Accounting Seminar for their friendly criticism and suggestions.

FACTORS WHICH MODIFY THE AREA OF SERVICE OF ACCOUNTING-TO-THE-PUBLIC

The usefulness of accounting has developed in two major areas — accounting to management and accounting-to-the-public. This study is focused primarily on the service of accounting as a quantitative and communicative methodology in providing information to the public. However, managerial accounting is considered since it exerts pressure for modifications of accounting methodology which may affect the service of accounting-to-the-public, and because counter-pressures are exerted on accounting-to-the public which may affect the service of accounting to management.

The outstanding fact with respect to the evolution of accounting is less that the growth was in response to a need for useful information, but rather that there was, and continues to be, an ever expanding group of parties at interest. Both management and the various outside interests believe they see much unused usefulness in accounting methodology. Since accounting is admittedly utilitarian, many believe that it should be open to change whenever a new group of potential users see possible adaptations which will make it more serviceable to their needs. Morever, the present disturbed condition of the world, both politically and economically, increases the search for additional usefulness, since all parties are seeking a more secure basis for economic decisions.

Pressures for the adaptation of accounting methodology continue because each group is increasingly seeking quantitative data about enterprises and because of the existence of certain conditions which give the impression that accounting is highly flexible. People at various levels of management, who have derived constant and growing benefit from accounting in providing for the control of operations, for the internal control of the assets of the enterprise, and in furnishing some of the data necessary in making various types of policy decisions, feel as a result of their continuous experience that

accounting methodology is highly useful and very adaptable. Many laymen and specialists in other fields, not aware of the problems of measurement and of judgement in accounting and of the need for serving many interests dependably, believe that accounting is a relatively simple procedure which is easily made accurate and which consequently should be adaptable to the measurement and classification of all types of economic data.

The pressure for expansion of accounting methodology has been aggravated by the lack of distinction between the function and capabilities of the accountant and the function and potentialities for service of the accounting methodology. Since the accountant is currently being utilized, in and proposed for, a more important economic role, many people believe that accounting methodology can readily be modified to be of greater usefulness in making the enterprise understandable to all and thus enable them to participate in the solution of many problems of management policy, investment, and of government planning, control, and tax administration.

Finally, a rather broad and indefinite conception of what constitutes accounting data prevails among businessmen, laymen and accountants. To many it is a concept broad enough to include any quantitative data processed by an accountant, including transaction data, standard costs, pertinent value data, cash and other budgetary forcasts, and even statistical adjustment of costs by means of index numbers.

Some businessmen, economists, and accountants think that accounting objectives and techniques must be continuously revised to give effect to changes in economic relations; they claim that the role of accounting in the corporate system and its potentialities in solving some of our economic problems are just beginning to be realized. Some even believe that eventually accounting can help to settle the whole broad question of bringing about economic balance by helping to change the problem of social rivalries from one of emotion to one of fact.

While high goals are set for the potential growth and

service of accounting, the development of accounting methodology and ways of interpreting accounting data have not kept pace with all these aspirations and new needs. Moreover, there is no consensus among private accountants, public accountants or academicians specializing in accountancy as to the extent and manner of adaptation that the accounting methodology should undergo in meeting changing economic and social needs. Some have advocated various extensions of the area of service of accounting methodology by means of value modifications of account data and interpretative adjustments of cost figures by index numbers when necessary to supply significant information. Others contend that some adaptations already made are improper and should be discontinued in order to establish an objective base for building further usefulness.

There is thus posed the problem of the extent and types of adaptations which accounting should undergo in order to attain maximum usefulness. In the beginning the problems of response were comparatively simple, but with the increase in the complexity of economic life the problems of dependable communication of information about an enterprise have become correspondingly complex. With a multiplication of uses for accounting data questions arise as to the limitations or appropriate boundaries of accounting methodology in accounting-to-the-public for obviously accounting cannot be the one complete and ideal information source for all needs of all interested parties.

In order to derive an answer to the extent and type of adaptation that accounting should undergo and to establish suitable boundaries so that accounting methodology can serve most effectively, in the long run, in accounting-to-the-public, consideration is given to the basic function of accounting in accounting-to-the-public, to the factors which have contributed to past and present accounting usefulness, and to some of the concepts, methods, and functions of neighboring fields which are advocated for inclusion in accounting methodology.

The basic function of accounting methodology is to produce

dependable communication about the enterprise. Dependability of the data presented is important because of the various group of parties at interest, parties which can be, and at certain times are, in direct conflict. A broad view of usefulness to all these parties is taken because, if a narrow view of usefulness is adopted which makes accounting methodology subservient to a particular group exerting pressure or to the requirements of a specialized use of accounting data, the service of accounting for other purposes is seriously impaired and its total area of service substantially restricted.

The possible area of service of accounting-to-the-public in providing dependable communication is studied by submitting accounting to an internal and external examination. The internal examination consists of a study of the factors (ideas, concepts, and methods) which have been developed out of long experience in meeting the needs of management and the expanding group of outsiders for information as to performance and responsibility, factors which have contributed to the attainment of dependability and communication and which have proven acceptable to many users. The business entity, money representation, recording and summarization, periodicity, consistency, objectivity and reviewability are discussed in their relation to dependable communication. It is shown that while these factors have been important in contributing to the expansion of the area of service of accounting, they, both individually and collectively, establish limits to accounting adaptability. These factors must be thoroughly considered in making any accounting adaptation. They tend to restrict expansion because without any one of them there would be a loss in broad and continuing usefulness which would more than offset any usefulness in meeting a special need that could be gained by submerging or diluting these factors.

The external examination consists of a study of the functions of certain neighboring fields — economics, statistics, and law and the points of significant contact with these fields through the pressures for inclusion of some of their concepts and methods within the area of service of accounting-to-the-

public. The discussion of the neighboring fields covers the following points which are of importance in attempting to locate the appropriate boundaries of accounting service:

1. Why and how accounting and the neighboring field overlap.

2. Evidences of confusion or lack of distinction as to the function and scope of the neighboring field and that of accounting-to-the-public.

3. Comparison and contrast of the function of the neighboring field and the characteristics of its concepts and methodology with those of accounting. This includes an appraisal of the suitability of the inclusion of some of the functions, concepts, or methodology of neighboring fields within the area of service of accounting-to-the-public, and consideration of the peculiar functions of economics, statistics, and law in relation to the function of accounting to reveal how they can be most effectively used as a team in aiding the solution of business problems and improving the presentation of information about business enterprise.

Various concepts, changes in method, and alterations of function have been put forth in the name of making accounting more serviceable. Some of these modifications have been adopted; some have just been proposed. Some of the proposed modifications and even some of the presently practiced modifications of accounting methodology need critical reexamination because they will, or have, seriously impaired both communication and dependability, the essential elements of usefulness in accounting-to-the-public.

From the study of the internal factors which have contributed to dependability and communication and with the consideration of some of the pertinent concepts, methods, and functions of neighboring fields as a background, it is possible to see that certain modifications are based on concepts and methods more germane to the neighboring fields and more

appropriate to their function than to accounting function. Consequently, the characteristics of such methods and concepts vary considerably from those necessary to provide dependable communication.

With such a background it is possible to make a better appraisal of the suitability of various types of expansion of accounting methodology and to gain enough perspective to see the boundaries which are appropriate to the primary function of accounting-to-the-public and which will enable it to maintain its present usefulness and which will also provide the basis for additional primary or secondary service.

One of the pressures for expansion of accounting toward what some contend will be greater usefulness involves expansion beyond the entity as the limit of relevant data. In securing a broader base of information for decisions by management or outsiders, economic information of significance can be derived from many sources, for example: market values and liquidation values of certain assets, changes in general price level and specific price levels bearing a closer relationship to the activities of the enterprise, trends in the specific line of business of which the enterprise is a part, and the trend of business activity in the total economy.

There are constant and intermittent demands that accounting go outside of the boundaries of the entity for information of some significance to the enterprise entity. There is a justifiable and continuing demand for information concerning value. The market value of certain assets such as marketable securities and merchandise inventory is desired as significant information by banks and suppliers so that they may have better knowledge as to the degree of liquidity and magnitude of the liquid resources. There is an intermittent demand for information as to the value of fixed assets. This is of some importance to financial management in times of rising prices when decisions must be made concerning the retention of earnings to maintain productive resources; it is also of some importance to creditors when the enterprise is seeking addi-

tional financing through an issue of long-term bonds, especially mortgage bonds. There are also some legal situations in which the law is involved in protecting the rights of various equity holders which require value information of special types — current appraised value and market value to measure the magnitude of the dividend base, realizable or liquidation value under the circumstances of receivership or liquidation. Finally, economists and statisticians in collecting data for the computation of national income desire market value information in order to arrive at the net value added by the productive activities of each enterprise.

However, the area of interest in value is very broad and indefinite. There are many different types of value with special meanings denoted by appropriate attached adjectives (such as market, going-concern, assessed, liquidation, and replacement) which aid the understanding of their precise meaning in line with the special purpose for which value is being determined. A consideration of some of the characteristics of value which are common to all its meanings, other than exchange-price value, indicates the necessity of distinguishing value data from the type of data which satisfy the internal factors of dependability and communication. Value is subjective, variable and involves an appraisal of the future. It is highly subjective because it involves the mental process of inference, which is chiefly dependent upon an individual's opinion as to the similarity of two situations in regard to the specific circumstances of time, place, identity of commodity or property, and the purpose of the valuation. It is variable because it is an expression of individual opinion dependent upon changing surrounding circumstances and the special purpose of the valuer. It indirectly involves appraisal of the future since it is derived from anticipated demand for a product or property, expected usefulness to a present or prospective owner, or potential profit or earnings to be obtained through use or sale. It is impossible to trace through time the causes of the changes in value information relative to specific assets. Most of those causes lie outside the enter-

prise and are not under the control of enterprise management.

Since value is impossible to trace within the entity and account for continuously and since many types of value are not continuously significant anyway, it seems that value information can best be treated outside the accounts. To inject value information into the accounts confuses the service that accounting renders in providing information needed to measure performance and to aid in the control of operations, and thus it impairs the present and future usefulness of the account data to most outside parties and to management. Value data has significance for certain interpretative purposes, but the differences in the reliability and relevance of these data indicates that, for the broad general usefulness and long-run usefulness of accounting-to-the-public, some items must be pointed out as external economic data (beyond the entity) and not of the same nature as enterprise accounting facts or account data.

Another pressure for expansion of accounting involves expansion beyond invested dollar representations to include index representations. During the inflationary years since World War II there has been a growing belief among the users of accounting data that the information presented was less significant and less dependable because accounting measurements were in terms of dollars recorded at various past dates and that therefore those dollars failed to reflect the change in the purchasing power of the dollar since those times. Many businessmen, economists, and some eminent accountants have contended that the adjustment of accounting measurements to measure the economist's idea of real income would be desirable.

The simplest way to convert a money measure into the economist's real measure is through use of an accepted index of the general price level. However, the immediate discovery is made that price indexes are not perfect measuring devices either. Economists admit that no perfectly satisfactory index of the general price level exists because of poor price reporting and inadequate coverage and also because in theory it is im-

possible to construct a perfect price index no matter how much information one has.

Another difficulty encountered is the recognition that there is not one price level but there are many price levels. Since any individual business does not expend its liquid resources for all the items embraced in the computation of a general price index, there is a strong argument to adjust for purchasing power in the light of the use to which the purchasing power will normally be put, that is, to use an index bearing a closer relationship to the activities of the enterprise. Thus a dilemma is created, since the application of the broad general index to account data may result in distortion rather than significant interpretation, while the application of a more specific index selected by management makes possible some manipulation and would make comparisons between companies still more difficult than at present. Any interpretative adjustment made by the use of index numbers might be useful to management for certain purposes and helpful to the economist compiling and interpreting industry, regional and national data, but the additional complexity injected into the reporting of income would reduce comprehension of the reported data by most outside parties since it would be a radical departure from generally understood method. Furthermore, in striving to get consistency of one type within an individual enterprise — the matching in each period of revenue and expense dollars having equivalent purchasing power — it appears that some new problems of attaining consistency between enterprises may be created unless the use of a certain index is mandatory.

Present proposals to reflect the effort of the changing value of the dollar do not attempt to portray the full impact of inflation on the enterpries. No consideration has been given to the offsetting effect on costs and financial position due to the fact that some of the liabilities will be paid off in dollars which are cheaper than when the liabilities were incurred. Omission of such consideration not only results in failure to attain the initial objective, but in justifiable criticism by labor, tax authorities and others that such omission is the equivalent

of manipulation.

During inflationary times it is conceded that management, in the execution of its responsibility to administer income is indeed under the press of short-run considerations — the drain of taxation, the needs of financing dollar and physical expansion, the maintenance of dividends, and the demands of labor for increased wages. Having justified their position in their own minds and being impatient with the slow processes of changing laws and of public relations, they feel that some change in accounting methodology is preferable to a longer and more difficult, yet more basic and stable solution. The management of an individual enterprise may seek tax justice by the restatement of its cost through the application of index numbers; but the same management would probably not offer to restate the dollars it owes to creditors. Accounting methods can insure neither a business enterprise, debtors, nor creditors against risk due to monetary fluctuation. If injustice is being done to any of these because of contracts made before monetary fluctuation, it should be alleviated by tax law change, by encouraging the use of security contracts which provide for repayment in equivalent purchasing power, or by national legislative action for revalorization of assets and debts in terms of coefficients established by relating the value of the monetary unit in various prior years when assets were acquired and debts incurred to the currently established value of the monetary unit. The means of attaining greater financial justice in times of monetary fluctuation are clearly in the field of law. Accounting is neither a short-cut to justice nor is its modification an appropriate substitute for legal modification.

If successive index number interpretations were made directly in the accounts, accounting data would gradually be separated from their basis of dependability — the actual business transactions of the entity. Furthermore, there is no way that the method of computation of an index or its applicability to the entity can be satisfactorily reviewed by the independent public accountant. If there is no reasonable assurance as to

the dependability of the interpretations made, they will not be used by outside interests in making their decisions related to the enterprise and the usefulness that was in the basic account data will have been lost.

In view of all the difficulties and losses in usefulness involved in price index adjustment, accounting-to-the-public should not sacrifice the advantages of money representation. The monetary unit is not suited for all types of economic measurement but it has much to recommend it. It is the unit in which business transactions are discussed and recorded and thereby provides a logical starting point in improving understanding. Not only is a careful accounting in dollar measurements necessary to facilitate understanding and belief in dependability, but it is also mandatory as a base if any price level adjustment is to be made. A complete record of transactions and dates must be available for converting recorded dollars to a common purchasing power denominator. The limitations of money representation caused by changing price levels should be mitigated by interpretation, but any interpretation by means of index numbers should be clearly disclosed as such and kept distinct from the array of recorded accounting facts, the account data.

Another pressure for the expansion of accounting involves an expansion beyond actuality into potentiality. Management's job is guidance toward the future and so it is natural that it seeks some quantitative data as part of the base for its guidance and as support for its decisions. Business executives feel that this can be found in a more scientific, quantitative approach to economic activities and their control. For the area of financial decisions accounting has seemed the most available and adaptable technique, hence it has had new demands for extended service and modification.

It has been contended by businessmen, economists and accountants that it is future costs (potential or replacement costs), considered along with expectation of future revenue, that are effective in business policy determination. Business-

men have persisted in their attempts to modify the conventional exchange-price account data in various ways (last-in, first-out inventory method, and depreciation on replacement cost) so that data for pricing policy and various phases of financial policy are automatically made available to them in the accounts and presented to outside parties. Management believes that, if their basic financial problem of maintaining the resources of the enterprise is presented to the various elements of the public by reflecting replacement costs in their published reports, stockholders will make more reasonable dividend demands, labor will make saner wage demands, and income tax policy will be formulated which will permit enterprise maintenance and growth.

Certain difficulties and probable losses of usefulness raise serious objection to the acceptance of potential data, such as replacement costs, into the accounting framework which is used as the basis for accounting-to-the-public. One difficulty encountered is that, in order to obtain future replacement cost data, so many new variables and imponderables (highly subjective estimates as to the timing and type of replacement and the probable prices then effective) must be considered that any estimates made are of doubtful reliability. It is almost impossible to get a solution which will be dependable and be sustained by the subsequent replacement experience. Measurement and the review of that measurement are indispensable characteristics of usefulness in accounting-to-the-public. When measurement is almost impossible, and if those made cannot be corroborated by independent review since an examination and validation of intentions is impossible, it seems illogical and misleading to intermingle such data with the actual account data. For comparisons between firms it is apparent that there would be a loss in usefulness since another element of inconsistency in accounting practice would be introduced. This would arise from the considerable variety of practice in estimating replacement costs because of the varying degree of competence, integrity, and thoroughness of study by financial manage-

ment, accountants, and engineers of different enterprises.

Since management is seeking such modification for its own guidance and in order to develop a more persuasive argument in quantitative form to counter or minimize certain financial pressures, some slight bias and various degrees of manipulation would be inevitable. Accounting-to-the-public cannot be a wishful advocate of management and exert influence for the self-interests of management in the solution of enterprise problems. To be influenced by management or any other party automatically restricts the usefulness of accounting to other parties. Under the contemporary economic circumstances and the existing relationships between management and labor, management and stockholders, and management and the government, accounting modifications cannot be sought on the basis that they will enable one party to convince the others of the reasonability of its decisions. The purpose of accounting is not the advocacy of the position of any of the interested parties. Any hint of advocacy, especially in the methods selected to determine income, only aggravates any existing distrust among the various parties and leads to disbelief of the data presented.

If potential data are merged into the same framework with actual data, some losses of present usefulness occur and some new difficulties are encountered. It is obvious that accounting becomes less useful as a device for accountability. Individuals or groups of individuals with financial responsibility can only be held accountable for their actions, not for what they might have done, for their intentions, or for actions or conditions external to their prescribed area of responsibility. Serious loss would also occur in a type of usefulness of constant importance to management, that is, the determination of cost performance and the responsibility for that performance. The mixing of actual and potential data in the accounts would seriously impair the validity of the data and its interpretation as the basis for any control action to be taken in regard to men or materials.

Moreover modification of accounting methodology to in-

clude replacement cost data does not provide a real solution to two aspects of the basic problem of maintaining the resources of the enterprise. One aspect is that of convincing certain distributees that there is a justifiable need for retaining earnings. Under contemporary circumstances, such accounting modification would only aggravate distrust of management and disbelief of the data presented. The second aspect is that of replenishing or increasing the dollar resources of the enterprise. If the resources of the enterprise are to be maintained in the sense that liquid resources will be available for the replacement of existing inventories and productive facilities, there is a problem of proper pricing policy so that revenue assets will provide additional dollar resources, or a problem of financial policy to provide new sources of additional dollars through bond or stock issues. A change in accounting policy will not provide additional dollars. Since the inclusion of potential data within the accounting framework cannot provide direct solution to management pricing and financial problems and such inclusion would cause serious losses of existing usefulness, the distinction between actual enterprise data (account data) and potential enterprise data is appropriate and necessary.

After consideration of these various types of expansion it becomes increasingly clear that some of the concepts and methods which have been put forward in the name of making accounting more serviceable are capable, if adopted, of impairing the primary services which accounting has been rendering for a long time. There is a real danger that, without a critical examination of suggested modifications, the core of accounting usefulness may be extracted in blind search for more extensive usefulness. Since accounting cannot meet all the individual needs for information fully, its primary communication function should be to present dependable and basic information about the enterprise which can be of substantial usefulness to all interested parties.

The reason for existence of enterprise economic units is to serve some productive purpose and so its creditors, in-

vestors, employees, consumers, and the government have a continuing interest in the manner in which this productive purpose is carried out. If a maximization of usefulness is sought, it seems that all parties can be directly or indirectly served, without prejudice to the information needs of any, by presenting facts concerning the accomplishment of the enterprise productive purpose — the details of actual expenses, losses and revenues and the net income result. Since some of the parties using income statement information have opposing interests, it is important that the elements of income determination be measured as objectively as the internal factors of dependability combined with professional competence and judgment can make them. Dependability cannot be achieved if value modifications, index number interpretations, and potential cost figures are intermingled with the account data which have important differences as to timing, reliability, and relevance.

Critical examination of the modifications advocated not only reveals the possible dangers of such expansion but suggests alternative means to satisfy the fundamental objectives underlying the pressures for expansion.

The proper approach to establishing a framework which will provide for the maintenance of present usefulness and will provide the basis for meeting expanded needs is to stake out carefully and clearly the boundaries of the area of service of accounting methodology in accounting-to-the-public and delineate the other types of economic data which are of some significance to an understanding of the enterprise but which have important differences in the characteristics of timing, reliability and relevance.

Most literature uses the term "accounting data" quite broadly. If the data are quantitative, useful and prepared by accountants, they are referred to as "accounting data." Thus, the term "accounting data" has gradually embraced economic data of widely varying characteristics. For the purpose of aiding dependability and communication it is recommended

that the different types of accounting data be carefully distinguished, as follows:

1. Account data — those data generated by the transactions and the operating actions of the enterprise.

2. Potential enterprise data — those data which are useful to management and internal to the enterprise but which are generated by prediction, such as standard costs and replacement costs.

3. External data — those data which are useful in interpreting account data but which are beyond the scope of actions and responsibility of the enterprise, such as value data and index numbers.

Accounting methodology in accounting-to-the-public should be delimited to deal only with account data. This will emphasize to all parties that accounting-to-the-public provides data which has special qualities related to dependability and communication which have been developed out of long experience and cannot be dispensed with without serious loss in usefulness. Accounting-to-the-public should meet the new and expanded demands for service by improving its presentation of the actual enterprise account data and by correlation of these with potential and external information which are deemed to be of significance in interpreting current financial status, financial needs, and results of operations. This correlation can be accomplished either through additional columns inserted in traditional statements or through supplementary interpretative analyses which are tied into and reconciled with the basic accounting statements.

This approach to usefulness is substantially, but not sufficiently recognized in practice. However, the fact that certain departures (the use of cost-or-market valuation, depreciation on replacement cost, the last-in, first-out inventory method and accelerated depreciation regardless of the physical facts of operation) have been practiced rather widely has brought accounting-to-the-public under severe criticism. Pro-

posed modification and excursions for some data beyond the entity and into the external, beyond the immediate past and into the future, and beyond money-price representation to statistical index number representation would further impair belief in dependability and cause serious losses in types of usefulness which accounting has been rendering for a long time. In order to restore and maintain belief in dependability, the statements presented to the public clearly rest on a base which is as objective as the factors of dependability and competent professional judgment can make it. That base should be composed only of account data. Once dependability is established, then the expansion of usefulness is possible by teamwork with those working in neighboring fields through providing as distinct data those items which will enable them to implement their concepts and methods to attain their special non-accounting goals. The important advantages of the recommended approach are:

1. An increased understanding of the nature of accounting-to-the-public would develop. It would be made clear through constant reference to the ways in which the factors of dependability and good communication are used that accounting-to-the-public provides a special quality of information and that its boundaries are related to those factors.

2. With management furnishing more and carefully distinguished information instead of seeking modifications which distort account data, outside parties would develop an increased understanding of the problems of managing an enterprise and would gradually gain confidence in the representations of management.

3. It would permit the exercise of the full capabilities of the independent public accountant without straining his professional integrity. Careful delineation of the account data would make it possible for the independent public accountant to certify to those data which satisfy the tests of dependability and which are reviewable. At

the same time he could present an uncertified version of what he believes is proper interpretation of the account data, openly presenting it as one man's opinion. Yet it would be a well-informed and competent opinion.

4. It would be made clear that accounting-to-the-public can and does provide an indispensable service in income determination, but that its service in that area would be impaired by any hint of advocacy of the position of any of the parties having an interest in income distribution. It would be stressed that accounting is an information service which can provide dependable facts useful in creating a greater feeling of good faith among the parties who share in the productivity of the enterpirse; but it would also be made clear that the question of equitable distribution must be left to agreement among the parties.

5. It would emphasize that accounting-to-the-public is necessarily a limited information source. If this is widely recognized, then all those seeking information about the enterprise or seeking solutions to enterprise problems are put on notice that their needs must be met in part by their own effective co-ordination of account data with those from neighboring fields. Such an awareness will stimulate the development of new quantitative techniques and methods of presentation to meet the expanding needs for more information and more informative reports.

In essence, it seems that accountants would be wise to enter rapidly upon such modifications of their art as would make it more understandable and dependable without changing its fundamental base or function, and that they could profitably engage in a continuous, well-considered effort of public relations designed to explain the nature, boundaries and service of accounting methodology in accounting-to-the-public. An increased understanding of the characteristics necessary for the primary service of accounting in providing dependable com-

munication about the enterprise, especially in relation to income determination and the measurement and control of performance, and an increased understanding of the resultant necessity for distinguishing between account data, external data, and potential data, will help clarify to all users of accounting data the types of primary service and auxiliary service which can be rendered by accounting-to-the-public.

VITA

William Adolph Terrill was born in Cincinnati, Ohio, on March 7, 1916. He attended the elementary and high schools of that city and upon graduation from high school in 1933 entered the College of Engineering and Commerce of the University of Cincinnati. He was elected to Beta Gamma Sigma in 1937 and completed the five-year co-operative course in business administration in 1938, receiving a Bachelor of Business Administration degree. During 1938 and 1939 he was employed as an accountant in the Auditor's Office of the Cincinnati Street, Railway Company. In 1940 he retured to the University of Cincinnati to complete courses necessary for the degree of Bachelor of Science in Commercial Education. After teaching commercial subjects in the Oxford Stewart High School in Oxford, Ohio from September, 1940 to May, 1942, he was appointed as an instructor at Miami University, Oxford, Ohio in June, 1942. He served in the United States Navy from 1944 to 1946 with duty aboard a destroyer as a tactical radar and communications officer. Upon separation from the Navy in June, 1946 he resumed teaching at Miami University as an instructor in accounting.

He enrolled in the University of Illinois in October, 1947 to begin graduate work in accountancy, and at the same time received an appointment as an Assistant in Accountancy. The degree of Master of Science was received in January, 1949 and an appointment to the rank of instructor was made in September, 1949. In September, 1951 he accepted an appointment as Assistant Professor of Accounting in the School of Business Administration of the University of North Carolina.